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1. INTRODUCTION

1.1. IMPLEMENTING A VALUE ADDED TAX (VAT) SYSTEM IN THE KINGDOM OF SAUDI ARABIA

The Unified VAT Agreement for the Cooperation Council for the Unified Arab States of the Gulf (the "VAT Agreement") was approved by KSA by a Royal Decree No. M/51, dated 3/5/1438 H. Pursuant to the provisions of the Unified VAT Agreement, the Kingdom of Saudi Arabia issued the VAT Law under Royal Decree No. M/113 dated 2/11/1438 H ("the VAT Law") and its corresponding Implementing Regulations were subsequently issued by the Board of Directors of the General Authority of Zakat and Tax ("GAZT") by Resolution No. 3839 dated 14/12/1438 H ("the Implementing Regulations").

1.2. GENERAL AUTHORITY OF ZAKAT & TAX

GAZT, also referred to as "the Authority" herein, is the authority in charge of the implementation and administration of VAT (which may be referred to hereinafter as "the tax") in KSA; in addition to the registration and deregistration of taxable persons for VAT; the administration of VAT return filing and VAT refunds; and undertaking audits and field visits. GAZT also has the power to levy penalties for non-compliance with legal provisions relating to VAT.

1.3. WHAT IS VALUE ADDED TAX?

Value Added Tax ("VAT") is an indirect tax which is imposed on the importation and supply of goods and services at the production and distribution stages, with certain exceptions. VAT is imposed in more than 160 countries around the world.

VAT is a tax on consumption that is paid and collected at every stage of the supply chain, starting from when a manufacturer purchases raw materials until a retailer sells the end-product to a consumer. Unlike other taxes, persons subject to VAT will both:

- Collect VAT from their customers equal to a specified percentage of each eligible sale; and
- Pay VAT to their suppliers, if any, from whom they have received the goods or services, equal to a specified percentage of each eligible purchase

When taxable persons sell a good or service, a 5% VAT charge – assuming a standard case – is assessed and added to the final sales price. The taxable persons will account for that 5% that they have collected from all eligible sales separately from its revenue in order to later remit a portion of it to the Authority. The VAT taxable persons collect on their sales is called Output VAT.

The same will apply to purchase transactions done by persons subject to VAT, in that VAT will be added at the rate of 5% to purchases of goods or services done by persons subject to the VAT (on the assumption that the basic rate applies to those supplies). The VAT a business pays to its suppliers is called Input VAT.

Further information about VAT can be found in the KSA VAT Manual or at vat.gov.sa.

1.4. THIS GUIDELINE

This guideline is addressed to all natural persons and legal persons who carry on an economic activity and who intend to provide or receive services before 1 January 2018 or thereafter. The purpose of this guideline is to provide additional clarification with respect to transitional rules for the introduction of VAT as from 1 January 2018 in three major areas:

- The application of VAT to supplies which are made before, after 1 January 2018;
- Special rules allowing for zero-rating of certain existing contracts (often referred to as “grandfathering rules”); and
- Other transitional measures concerned with transactions taking place between other GCC States

This guideline represents GAZT’s views on the application of the Unified VAT Agreement, the VAT Law and the Implementing Regulations as of the date of this guideline. This guide amounts to a guideline, and does not include or purport to include, all the relevant provisions relating to the transitional provisions of the Unified VAT Agreement, the VAT Law, or the VAT Implementing Regulations. It is not binding on GAZT or on any taxpayer in respect of any transaction carried out and it cannot be relied upon in any way.

However, for further advice on specific transactions you may apply for a ruling or visit the official VAT website at (vat.gov.sa), which contains a wide range of tools and information that has been established as a reference to support persons subject to VAT, as well as visual guidance materials, all relevant information, and FAQs.

2. DEFINITIONS OF THE MAIN TERMS USED

The rules in this guideline may apply differently, depending on whether goods or services are a non-continuous supply (**one-off** supply) or a continuous supply (supplies of a continuous nature). The VAT law does not specifically define the terms one-off or continuous supply of goods or services: this guideline sets out GAZT's interpretation of their meaning in the context of the VAT Law and Implementing Regulations.

A **one-off supply** of goods or services generally involves the supplier making the goods or services available on a non-continuous basis at one time, and the customer immediately obtaining the rights to use those goods or services.

A one-off supply of goods or property may involve a single payment or multiple payments over a defined period, but the ownership or possession of goods transferring, or the services being performed, at the same time. The method of payment does not affect whether a supply is one-off. Generally speaking, the giving of access to the services over a period of time will be regarded as a continuous supply.

Examples of one-off supplies include, but are not limited to:

- A sale to a consumer in a retail store
- A manufacturer placing an order with its supplier today for delivery of a shipment next month
- A sale by instalments where the customer takes possession and ownership of the goods once paid in full
- Any contract (including a finance lease culminating in conferring of ownership, hire culminating in conferring of ownership, or sale by instalments) which allows the customer to take possession to the goods at a specified date and provides for the transfer of the goods (or possibility of transfer of goods) at a later date, regardless of payments being made over a set period
- Transaction fees for individuals charged by a bank
- Fee for attending an event
- Provision of a report by a consultant
- Repair services by a repair and maintenance company

A continuous supply of goods or services involves the provision of goods or performance of services continuously across a defined period. It may involve the delivery of specific goods or services item on a specific date, but the customer obtains benefit of the goods or services over a number of stages or periods – or the contract is for services provided over a long-term period against set milestones.

Examples of continuous supplies include, but are not limited to:

- An operating lease or rental of goods (under a contract which does not provide for the possibility of the ownership of the goods transferring at a later date)
- The provision of electricity and water by a utility company
- Construction services
- A contract of insurance or takaful
- Management services across a period
- Membership of a gym
- Provision of labour to third parties over a specified period
- A contract for periodic maintenance services

A continuous supply with the consideration collected by instalments is not defined in the VAT law, but generally means a supply contract that provides for the continuous supply of the goods or services with payment of the consideration by periodic instalments. The contract must clearly state the specified due date for each instalment or payment, either pre-determined or determinable on the occurrence of specific events.

This may include, for example: fixed milestone payments under a construction contract, or contract for regular security or maintenance services with a fixed monthly instalment due. Contracts payable in only two instalments (such as a down payment and a final payment) are not regarded as regular instalments for the purposes of the provisions referred to in this guide.

A continuous supply spanning 1 January 2018 is a continuous supply of goods or services starting before 1 January 2018 and continuing thereafter.

A contract which anticipates the application of VAT is a contract to which the transitional rules relating to the application of the zero-rated VAT ('grandfathering') does not apply. This term is not defined in law. GAZT considers this to be any binding agreement between two parties which sets out implicitly or explicitly how VAT is to apply to the contract and the payable consideration for goods or services.

This is meant as any written contract providing as follows:

- Stating whether the price payable for the goods or services are inclusive or exclusive of VAT, or are inclusive or exclusive of taxes generally; or
- Specifying a mechanism to determine how the price may be adjusted – or a may not be adjusted – to reflect a change to VAT (or "taxes") applying to the goods and services provided under the contract

In the above, "taxes" refer includes any reference to value-added tax, ad-valorem taxes, transactional taxes, sales taxes, or a reference to "all taxes" save where this is defined to exclude any of the above taxes.

3. ECONOMIC ACTIVITY AND VAT REGISTRATION

3.1. WHO CARRIES OUT AN ECONOMIC ACTIVITY?

An economic activity may be carried out equally by natural persons or legal persons.

It will be presumed that a legal person that has a regular activity making supplies carries on an Economic Activity. It should be stated that natural persons may perform certain transactions as part of their economic activity, or as part of their private activities. There are therefore specific rules to determine whether or not a natural person falls within the scope of VAT.

Natural persons and legal persons who carry on an economic activity must register for the purposes of VAT if so required, and such persons must collect the VAT applicable to their activities, and pay the tax collected to the Authority.

3.2. MANDATORY REGISTRATION

Registration is mandatory for all persons whose annual turnover exceeds a certain threshold. If a person's taxable supplies over 12 months exceed SAR 375,000 (the "Mandatory VAT Registration Threshold"), that person must register for VAT supplies made subject to the transitional provisions provided for in the Implementing Regulations. ⁽¹⁾

Taxable supplies do not include:

- Exempt supplies – such as exempt financial services or residential rental which qualifies for VAT exemption;
- Supplies taking place outside the scope of VAT in any GCC State; or
- Revenues on sales of capital assets – a capital asset is defined as an asset allocated for long-term business use ⁽²⁾

In certain circumstances, other provisions will apply for mandatory registration:

- Persons who are not resident in the Kingdom of Saudi Arabia are required to pay the VAT in respect of supplies made or received by them in the Kingdom of Saudi Arabia and to register for VAT irrespective of the value of the supplies for which they are obliged to collect and pay the VAT ⁽³⁾
- During a transitional period up to 1 January 2019, businesses will only be required to register where annual turnover exceeds SAR 1,000,000, and an application for registration must be submitted no later than 20 December 2018 ⁽⁴⁾

More information on mandatory registration for VAT is available at vat.gov.sa.

3.3. OPTIONAL VAT REGISTRATION

Any Resident person in the Kingdom of Saudi Arabia who has taxable supplies or taxable expenses exceeding the "Optional VAT Registration Threshold" of SAR 187,500 in a twelve-month period may register for VAT on a voluntary basis. ⁽⁵⁾

Optional VAT registration is preferable where a business wishes to claim VAT charged to it on their costs before invoices are raised or the occurrence of an onward supply.

(1) Article 3, Mandatory registration - Supplies exceed the Mandatory Registration Threshold, Implementing Regulations

(2) Article 1, Definitions, Unified VAT Agreement

(3) Article 5(1), Mandatory registration of Non-Residents obligated to pay Tax in the Kingdom, Implementing Regulations

(4) Article 79 (9), Transitional provisions, Implementing Regulations

(5) Article 7, Voluntary Registration, Implementing Regulations

Example 1: Al Saqr LLC is a KSA company engaged in the construction of a reinforcing steel factory in Riyadh. It plans to start producing and selling the steel to customers in January 2020. Nevertheless, the company has incurred high expenses amounting to SAR 2,000,000 to local suppliers during the first quarter of 2018, in connection with the purchase of equipment, and building expenses, before making any supply. In such event, it will be open to Al Saqr LLC to register for VAT voluntarily on the basis of its annual expenditures exceeding the voluntary registration threshold.

More information on voluntary registration for VAT is available at vat.gov.sa.

4. DATE OF SUPPLY RULES

4.1. SUPPLIES OF GOODS OR SERVICES MADE BEFORE 1 JANUARY 2018

The date of a non-continuous supply of goods shall be the date when the following occurs⁽⁶⁾:

- The goods are placed at the customer's disposal, for supplies that do not involve transportation of those goods;
- The transportation of the goods commences, for supplies that involve transportation to the customer; or
- The date of completion or assembly of the goods, for goods that require assembly or installation

The date of a one-off supply of services is when the performance of those services is complete.⁽⁷⁾

The one-off supply of goods or services made before 1 January 2018 are not subject to VAT. This is regardless of whether a tax invoice is issued in respect of that supply after 1 January 2018, or if payment is received on or after 1 January 2018.

Example (2): A painter paints a house on 15 December 2017, but does not issue an invoice or collect payment until January 2018. This is a one-off service made before 1 January 2018. The painter does not need to charge VAT on the invoice raised in January 2018.

Supplies which are made in the KSA on or after 1 January 2018 are subject to the application of VAT under the standard rules.

Example (3): A painter paints a house on 15 December 2018, but does not issue the invoice or collect payment for his services until January 2019. The service will be treated as a service chargeable to VAT in accordance with the basic rules, and tax will be chargeable at the time of performance of the service in December 2018.

4.2. ADJUSTMENTS TO SUPPLIES MADE BEFORE 1 JANUARY 2018

The clarifying rules below specify the date on which a non-continuous service of goods is deemed to have been made:

- The supplier agrees to grant a retrospective discount on the supply;
- An error in calculation requires the supplier to charge an additional or reduced amount; or
- The goods are returned because of a defect the supplier gives a refund

In these cases, the supplier is obliged to provide a credit note or a debit note to reflect the change in price.⁽⁸⁾ The date of supply remains the date that the goods or services were supplied – and the adjustment should have an identical tax treatment to the original supply. Therefore, credit notes or debit notes reflecting adjustments to supplies taking place before 1 January 2018 should not include any VAT.

Example (4): A supplier sells a shipment of 10 televisions to a retail store on 17 December 2017 for SAR 3,000 each, without any VAT. Three of the televisions are faulty and are returned to the supplier on 3 January 2018. On 4 January 2018, the supplier issues a credit note for SAR 9,000.

The credit note is raised after the introduction of VAT, but should not include VAT as it relates to a supply made before 1 January 2018.

(6) Article 23(2), Tax due date, Unified VAT Agreement

(7) Article 23(2), Tax due date, Unified VAT Agreement

(8) Article 40, Adjustment to value of a Supply, Implementing Regulations: provided a tax invoice was issued for the original supply

Where a credit is used against another new supply made after 1 January 2018, the new supply is subject to VAT as normal, and a tax invoice must be issued for the new supply.

4.3. DATE OF SUPPLY FOR CONTINUOUS SUPPLY CONTRACTS FOR GOODS OR SERVICES MADE AFTER 1 JANUARY 2018

There are different provisions for the date of supply for continuous contracts for goods or services, where the goods or services are payable in instalments over a specified period, or where they are supplied continuously over a specified period.

4.3.1. Continuous supply with consideration collected in periodical instalments:

Where a continuous supply of goods or services is made under an agreement providing for payment of the consideration in regular and periodical instalments, there is a special rule permitting the splitting of the VAT accounting over the duration of the contract. Each instalment will be treated as a separate supply on the date on which the instalment falls due, or on the date of actual payment, whichever occurs first.⁽⁹⁾

Example (5): A commercial landlord leases an office space on a two-year lease to a law firm, commencing on 15 January 2018. The contract specifies that rent of SAR 42,500 is due for payment on the 15th of each month. In such a case, VAT will be accounted on the 15th of each month, unless the tenant makes an early payment.

4.3.2. Other continuous supplies of goods or services

Goods and services supplied on a continuous basis (but without an agreement providing for the value or date of each instalment) are subject to different rules. In these cases, each supply made pursuant to an invoice issued or payment made, for the amount of that invoice or payment is deemed separate and successive.⁽¹⁰⁾

In the event that an invoice has not been issued or payment has not been received within the 12 months following commencement of the continuous supply or the issue of the last invoice or the last payment for the goods and services being supplied, the supply will be deemed to have been made on the day following the expiration of 12 months from the date of: the commencement of the continuous supply; or of the issue of the last invoice for receipt of the last payment for the services and goods being supplied, whichever occurs last.⁽¹¹⁾

Example (6): Al-Mu'tasim LLC charges a management fee to Al Amal LLC. The agreement sets out that an annual fee of SAR 15,000 is payable, but does not define when an invoice must be raised. An invoice is raised on 30 December 2018, and then Al Mu'tasim does not raise an invoice or collect payment during 2019.

The provision of an annual management service is a continuous supply. VAT is due on the date of the issue of the invoice on 30 December 2018: which relates to the period from 1 December 2017 to 30 December 2017, in an amount of SAR 687.5. Although no invoice is issued in 2019, a subsequent supply is deemed to be made twelve months after the previous invoice, on 31 December 2019. VAT of SAR 750 becomes due on that date.

Continuous supplies of goods or services involve the provision of goods or services across a specified period, rather than a specified good or service being provided at the end of a period. The definitions section of this guideline defines in greater detail what is a continuous supply.

(9) Article 20(1), Date of Supply in specific circumstances, Implementing Regulations

(10) Article 20(2), Date of Supply in specific circumstances, Implementing Regulations

(11) Article 20(3), Date of Supply in specific circumstances, Implementing Regulations

4.4. TRANSITIONAL PROVISIONS: ISSUE OF INVOICE OR RECEIPT OF CONSIDERATION BEFORE 1 JANUARY 2018

Under the general VAT rules, in the event of the issue of a tax invoice or receipt of payment by the supplier relating to the supply, the date of supply will be the date of actual supply of the goods or services or the date of receipt of payment (up to the amount received), or the date of issue of the invoice, whichever first occurs.

Under the transitional provisions, if a supply of goods or services takes place on or after 1 January 2018, any invoice issued for any consideration received before 1 January 2018 will be ignored for the purposes of calculating the time of supply for VAT, and consequently, the supply will be subject to VAT.⁽¹²⁾

If an invoice is issued before 1 January 2018 for a supply that is to be performed after 1 January 2018, without including the VAT applicable to the goods or services being supplied under that invoice, the supplier must issue an additional invoice specifying the amount of VAT.⁽¹³⁾

Example (7): Al Yusr Company LLC contracts with a transport company for the transportation of industrial equipment from the city of Riyadh to its warehouses in the city of Dammam, it being provided that the transport will be completed on 17 January 2018. The transport company issues an invoice on 24 December 2017, without VAT, and then Al Yusr Company pays the invoice in full on 28 December 2017. Under the transitional provisions, in this event, the invoice as issued and the amounts paid early must be ignored, and VAT must be applied to the service, which was to be performed on or after 1 January 2018. Consequently, the transport company must issue an additional VAT invoice to Al Yusr Company LLC specifying the amount of the VAT due on the services provided on 17 January 2018.

4.5. APPLICATION OF THE TRANSITIONAL PROVISIONS TO LONG-TERM CONTRACTS

4.5.1. Application of tax to non-continuous supplies

VAT will be applied to contracts for the non-continuous supply of goods or services in accordance with the date on which the goods were placed in the possession of the customer, and the special provisions relating to the splitting of the accounting of VAT over the instalments will not apply to such supplies.

Performance of the supply before 1 January 2018:

If a one-off supply of goods or services is completed before 1 January 2018, and ownership is transferred before 1 January 2018 (in accordance with the standard date of supply rules outlined in section 4.1, then VAT will not apply to any instalments due after 1 January 2018.

Example (8): A motor vehicle dealer sells a car on 15 September 2017 for SAR 120,000, with the customer taking ownership of the car on that date, but with consideration payable in twelve monthly instalments. The customer is able to dispose of the car and sell it or hire out to any third party at any time.

This is a one-off supply, with ownership of the goods being transferred to the buyer on 15 September 2017. VAT will not be charged on the instalments due on or after January 2018, on the basis that these relate to a one-off sale completed before the introduction of VAT on 1 January 2018.

Supply takes place on or after 1 January 2018

In connection with the non-continuous supplies, if delivery of the goods or performance of the services does not take place before 1 January 2018, VAT will apply to the full value of the supply on the grounds that the supply has taken place after the implementation of VAT, and the taxable value will be the full value of the goods or services including all instalments or payments paid or due.

(12) Article 79(1), Transitional provisions, Implementing Regulations

(13) Article 79(1), Transitional provisions, Implementing Regulations

The due date for payment of the VAT on the whole of the consideration will be the date of actual supply of the goods or services (after 1 January 2018). In the event that the supplier has issued an invoice before 1 January 2018 without accounting for VAT on the supply, he must issue an additional VAT invoice including the VAT relating to that supply.

Example (9): in the previous example, if the car dealer sells the car on 25 December 2017 for an amount of SAR 120,000, with delivery of the car to the customer and completion of the procedures relating to the transfer of ownership on 5 January 2018, with the price of the car being paid in 12 instalments to be collected monthly, VAT will apply on the entire value of the car amounting to SAR 120,000, and tax and the amount of SAR 6000 will be due on 5 January 2018.

4.5.2. Supply of goods (assets) under finance leases/hire purchase/ lease (ijara)

In the case of contracts relating to the financing of goods (assets), through finance lease contracts or leasing culminating in acquisition of ownership, or leasing (ijara), the bank or financial institution enters into the commercial transaction through its purchase of the goods (assets) desired to be acquired in the name of the bank or the financial institution from the supplier of the goods (the assets).

The supplier of the goods (the assets) will issue a tax invoice in the name of the bank or institution, and the bank or institution will then supply those goods (assets) to the lessee (the customer) under a leasing system or leasing culminating in acquisition of ownership, and will collect the consideration over a period of time to be agreed between them under a written agreement.

The agreement shall provide for the entitlement of the lessee (customer) to purchase the goods (assets) after payment of all of the instalments agreed, and the bank will collect the consideration for the goods (the assets) in addition to interest or finance profit from the customer in fixed periodical instalments, and at the end of that period ownership of the goods (assets) will be transferred to the lessee (customer).

The Authority takes the view that these contracts are basically contracts of supply (sale) of goods (assets) by way of financing, to which the provisions and definitions pertaining to non-continuous supplies apply (one-off supply of goods), taking place on the date that the goods (the assets) are placed at the disposal of the customer.

Therefore, VAT will apply to the supply of the goods (the assets) done in accordance with finance leasing contracts or by way of lease, or lease culminating in acquisition of ownership, under which possession of the goods is relinquished under an agreement that provides that ownership of those goods or the possibility of transfer thereof will take place on a date subsequent to the date of the agreement, no later than the date of payment of the consideration in full.

Provided that it is a single supply of goods made on the date that the goods are placed at the disposal of the customer, VAT will be due on such supply on the date of supply of the goods or on the date that the VAT invoice is issued, or on the date that the consideration is received in part or in whole, up to the amount of the money received, whichever first occurs, and such supply will not be treated as a continuous supply.

Example (10): Sultan makes a contract with a Saudi bank for the purchase of the car under a hire purchase agreement, the cash value of the car being SAR 100,000, and the value of the car under the hire purchase system with 60 monthly instalments amounting to SAR 120,000. The contract is made on 1 March 2018 and Sultan pays an advance deposit in an amount of SAR 5,000 on the date of the contract.

Sultan takes delivery of the car on 1 April 2018, and pays the first monthly instalment amounting to SAR 1,916.

(Value of first instalment = $(120,000 - 5,000)/60$).

For the purposes of VAT, upon payment of the advance instalment and before receipt of the car, VAT is calculated at the rate of 5% on that instalment ($5,000 \times 5\% = \text{SAR } 250$). The bank will collect the VAT from the customer and declare and pay it through its VAT return for the month of March 2018.

When Sultan takes delivery of the car, the bank accounts for the whole of the VAT on the remaining amount of the cash value of the car ($100,000 - 5,000 = 95,000$), at a rate of 5% ($95,000 \times 5\% = \text{SAR } 4,750$). The bank collects the tax from the customer and declares and pays it to the Authority in one go through the VAT return to the month of April 2018.

Therefore, the VAT accounted for amounts to SAR 5,000, and the value of the interest and profits of the bank are treated as financial services exempt from VAT.

Example (11): Sultan contracts with a Saudi bank for the purchase of a car, under a leasing arrangement culminating in the acquisition of ownership in 2018, and the cash value of the car is SAR 60,000. The value of the car under the leasing arrangement culminating in the acquisition of ownership in 36 instalments amounts to SAR 80,000. The contract is made on 1 March 2018, and Sultan takes delivery of the car 5 March 2018, and pays the first instalment amounting to SAR 2,222 ($80,000/36$).

For the purposes of VAT, when Sultan takes delivery of the car 5 March 2018, the bank accounts for the whole of the VAT on the cash value of the car at the rate of 5% ($60,000 \times 5\% = \text{SAR } 3,000$), and the bank collects that tax from the customer and declares and pays it to the Authority in one go through its VAT return the month of March 2018.

Example (12): Sultan contracts with a Saudi bank for the purchase of a car, under a leasing arrangement culminating in the acquisition of ownership in 2016. The cash value of the car is SAR 100,000 and the value of the car under the leasing arrangement culminating in the acquisition of ownership in 60 instalments amounts to SAR 120,000. The contract is made on 1 February 2016 and Sultan takes delivery of the car on 20 February 2016, and pays the first instalment amounting to SAR 2,000.

This transaction is not subject to VAT, because the contract was made and delivery of the car was taken before January 2018, and so no VAT will be payable on the remaining instalments, to be paid starting from the year 2018.

For the above treatment to apply, the goods (the assets) must be placed at the disposal of the customer before January 2018.

4.5.3. Continuous supplies of goods or services

The KSA VAT law provides that continuous supplies of goods or services that span through 1 January 2018 are only subject to VAT on the part of the supply that is performed from 1 January 2018 onwards. VAT is not chargeable on any part of a continuous supply that is performed before 1 January 2018.⁽¹⁴⁾

The supplier must allocate the value of any such supply up to the period before and after 1 January 2018 in the most appropriate way to reflect the goods and services actually provided.

Example (13): Ahmad takes out an annual gym membership on 1 November 2017, for a special offer of SAR 2,400 with payment made upfront. This is a continuous supply of services, and VAT will apply only to the portion performed after 1 January 2018. Having regard to the fact that the contract was concluded for an annual membership and it provides that the value of the contract shall include all taxes and duties, the gym will calculate VAT for 10 months out of the total of 12 months. Thus, VAT will be levied on an amount of SAR 2000 out of the total value of SAR 2400 (equivalent to the value of 10 months out of the total of 12). Consequently, the gym must calculate VAT as follows: $10/12 \times \text{SAR } 2400 = \text{SAR } 2000$. The gym must declare that tax in its first tax return of 2018.

(14) Article 73, Transitional provisions, Unified VAT Agreement; and Article 21 (3) - VAT Law

Example (14): An international school charges tuition fees for a nine-month academic year from 15 September 2017 to 14 June 2018. Parents pay three instalments of SAR 10,000 on 15 September, 15 December and 15 March. The price of each instalment is exclusive of VAT, if any.

This is a continuous supply of services made across the academic year. VAT will be only charged on instalments where and to the extent that the supply is performed on or after 1 January 2018. No VAT will be charged on the portion relating to 2017.

The instalment schedule is therefore set out as follows:

Period	Payment Due Date	Principal Amount (SAR)	VAT Amount (SAR)	Total payable (SAR)
15 September 2017 - 14 December 2017	15 September 2017	10,000	0.00	10,000.00
15 December 2017 - 31 December 2017	15 December 2017	1888.87		1,888.87
1 January 2018 - 14 March 2018	15 December 2017	8,111.11	405.55	8,516.66
15 March 2018 - 14 June 2018	15 March 2018	10,000	500.00	10,500.00

For that part of the instalment payable on 15 December 2017, VAT is calculated based on the taxable portion of that instalment from 1 January 2018 to 14 March 2018 of that supply (73 out of 90 days) which is performed on or after 1 January 2018. The school must issue an additional invoice for the VAT due and declare the tax in its first tax return for the year 2018. With regard to the final instalments due after 1 January 2018, they are subject to VAT under the usual rules, on the due date for payment, or on the date of actual payment, whichever first occurs.

5. ZERO-RATING OF EXISTING CONTRACTS (“GRANDFATHERING” PROVISIONS)

VAT is a cost borne by the end consumer, and in accordance with the Unified VAT Agreement prices set out in the local retail market should include VAT. In reality, many companies may decide to separate VAT from the final sale price of the product in VAT invoices that they issue, so that it will appear that the tax does not figure as an added cost to the customer on top of the value of the products sold to him.

Many contracts existing in the KSA before 1 January 2018 clearly provide that the contract price is inclusive or exclusive of VAT, or have terms and conditions specifying the effect of a future change in taxes on the contract price, these being contracts that anticipate the application of VAT. The definitions section in this guide sets out the detailed meaning of contracts that anticipate the application of VAT.⁽¹⁵⁾ Nevertheless, there may be many other existing long-term contracts in the Kingdom of Saudi Arabia that do not specify whether the contract price shall be inclusive or exclusive of VAT, and do not provide terms and conditions relating to the effect of VAT on the contract price, or set out how change in taxes may affect the price payable. These contracts are said to not anticipate the application of VAT to the supplies of goods and services. The definitions section discusses the meaning of this term in more detail.

Many existing long-term contracts in the KSA do not anticipate the effect of VAT on the pricing of goods and services. For this reason, exceptional provisions have been introduced into such contracts by way of a transitional relief in order to remove the tax burden for parties to those contracts in connection with a change in the contract price, in line with VAT. These provisions are referred to as “transitional provisions for the application of the zero rate to existing contracts” or “grandfathering” rules.

5.1. CONTRACTS QUALIFYING FOR THE APPLICATION OF THE TRANSITIONAL PROVISIONS FOR THE IMPOSITION OF THE ZERO RATE

The transitional provisions for the imposition of the zero rate may be applied to contracts binding on both parties, which did not anticipate the introduction of VAT, provided that the terms and conditions of the contract did not include either of the following:

- Reference to the contract price including or not including VAT, or taxes generally; and
- Any provisions relating to a change in the contract price in the event of the introduction of VAT or taxes on goods and services

GAZT considers that a reference to any of the following is to be treated as a reference to VAT:

- Value-added taxes,
- Ad-valorem taxes,
- Consumption taxes,
- Sales taxes,
- Transactional taxes, and
- A general reference to “taxes” (unless “taxes” is defined to not include any of these terms)

Example (15): A supplier’s standard terms and conditions documentation sets out that “Our prices are inclusive of all local taxes”. Such a contract is considered not to qualify for the application of the transitional provisions for the imposition of the zero rate to existing contracts since it contains an express provision as to the mode of dealing with the tax.

Example (16): A contract for a housing project states that the price payable is SAR 1.95 million. The terms and conditions state that “any prices stated in this agreement do not include value added tax or similar transactional taxes applying under local law. This contract expressly refers to how tax will be dealt with, and so does not qualify for the application of the transitional provisions for the imposition of the zero rate on existing contracts.

(15) Article 79(3), Transitional provisions, Implementing Regulations

Example (17): A local event supplier enters into an agreement with an overseas foundation to run an event in Jeddah for a fixed price. There is no reference to VAT in the agreement, but a provision in the contract allows the supplier to amend the price to reflect a change in local tax law. Having regard to the fact that the contract does include this provision, it will qualify for the application of the transitional provisions for the application of the zero rate to existing contracts.

Example (18): A consultancy service agreement includes a price without any reference to VAT or taxes generally. The contract does not anticipate the application of VAT to the supply of the consultancy services and consequently, it will be possible to apply the transitional provisions for the application of the zero rate in the event that the qualifying provisions for the application of the zero rate are met.

5.2. APPLICATION OF THE TRANSITIONAL PROVISIONS TO THE APPLICATION OF THE ZERO RATE TO CONTRACTS MADE BEFORE 30 MAY 2017

The transitional provisions for the application of zero rate to contracts made before 30 May 2017 permit the application of the zero rate to supplies made under certain existing contracts that qualify for the application of the transitional provisions to those contracts, which extend up to the date of expiration or renewal of the contract, or until 31 December 2018, whichever is the earlier.

This allows additional time to the suppliers and customers, who had entered into long-term contractual obligations in which the application of the VAT was not anticipated, to review those contracts and to agree the correct value. The transitional provisions for the application of zero rate will apply only in the event that the existing contracts satisfy all of the three conditions at the same time:

1. **The contract was entered into before 30 May 2017.** The date the contract is entered into is the date on which it was signed or becomes binding on the parties. Contracts which were entered into before this time but have been subsequently renewed or updated will be considered as entered into on the renewal or update date
2. **The customer is entitled to deduct Input VAT in relation to that supply in full, or is a Government entity or other "Eligible Person" able to claim a refund of the VAT incurred on purchases.** It is not necessary that the customer may be fully taxable or able to fully deduct input VAT on all his activities for grandfathering relief to apply to that supply. Supplies made to a customer who will not be VAT registered with GAZT (or will not be registered as an Eligible Person) will not qualify for this relief
3. **The customer provides a written certification to the supplier** that he is able to deduct/refund the Input VAT in relation to that supply in full. Further detail on certification is set out below

The zero-rate applies to supplies included under existing contracts to which the transitional provisions for the application of the zero rate apply, made until the earliest of:

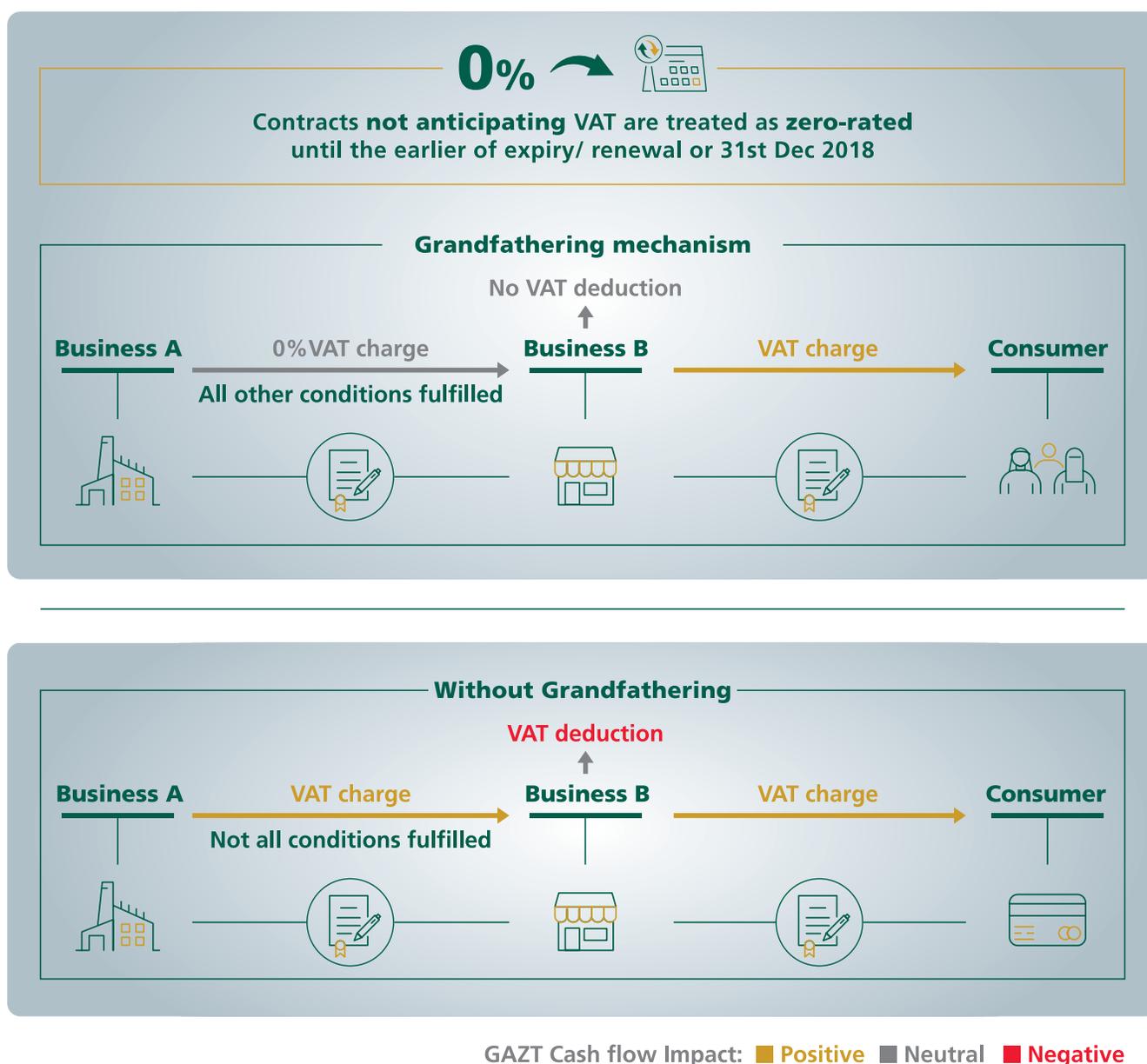
- The date of expiry of the contract;
- The date the contract is renewed; or
- 31 December 2018

All supplies made after any of the above-mentioned dates are chargeable with VAT as normal, without the transitional provisions of the application of the zero rate applying. Further, the transitional provisions for the application of the zero rate apply only to supplies which would have been subject to VAT under the general rules of the VAT Law and the Implementing Regulations to the Law (and which the customer would have been able to deduct Input VAT in full). The transitional provisions cannot be used to apply the zero-rate to supplies which are VAT exempt or outside the scope of VAT.

Example (19): A VAT-registered person makes supplies of residential property to a tenant on an annual contract made 1 April 2017 which does not mention VAT. The landlord obtains the services of the maintenance company for that property for the periodical maintenance of it. The maintenance contract was made before 30 May 2017. The maintenance company is not able to apply the zero rate to its contract with the landlord because the landlord is not able to deduct the input tax relating to the residential property, which is

exempt from VAT. Further, the landlord is not able to apply the zero rate to his contract with the tenant, because the supply is exempt from VAT, in addition to the fact that the tenant is the end-user, and may not make any deduction or recovery.

5.2.1. Certificate of the customer for the deduction/recovery of input tax



Application of the grandfathering relief requires the supplier to obtain a written certification from the customer, confirming his right to deduct/recover VAT on that supply or those supplies in full. The Authority takes the view that the customer may issue such certificate by any means (including by electronic means), and both the customer and the supplier must keep that certificate in their records. It is not open to the supplier to assume that the customer is entitled to deduct/recover VAT. He must require the customer to confirm his ability or entitlement to deduct or recover VAT at a zero rate. The request may also apply to a one-off supply of goods or services or a multiple or a continuous supply of goods or services over a specified period. The certificate must contain the following particulars:

- The name and TIN of the supplier
- The name of the customer
- Description of goods or services the subject of the certificate, or the start and end date for supplies the subject of the certificate, or other information which clearly identifies which supplies the certificate relates to

The customer may reply to the request of the supplier to provide him with the certificate at the appropriate time, in accordance with their agreement. The response should be based on all facts known to the customer at the time the response is provided, and should relate to the customer's ability to deduct or recover VAT on that particular supply (or those particular supplies). The customer should either:

- Confirm that it is able to deduct or recover Input VAT in full on the supplies subject to the request (a positive response); or
- Advise that it is not able to deduct or recover Input VAT in full in respect of the supplies the subject matter of the request, or advise that it is unable to make a confirmation (a negative response)

A positive response provided in writing to a supplier request is treated as a written certification for the purpose of applying the transitional zero-rating on contracts made before 30 April 2017. The certification is given to the supplier on the basis that it is a confirmation that the customer can deduct or recover VAT in full on all of the supplies the subject matter of the request.

Example (20): A supplier issues a letter to a customer stating "we will assume you can deduct input VAT on full on our supplies to you during 2018 unless you reply to inform us otherwise". The supplier is not able to apply grandfathering relief if the customer does not reply, since the existence of a written certificate from the customer is a basic requirement for the application of the transitional provisions for the application of the zero rate to existing contracts.

5.2.2. Amendment, Extension and Alteration to a Contract

The application of the transitional provisions for the imposition of the zero rate to contracts made before 30 May 2017 terminates automatically upon the variation or renewal of the contracts that qualify for such provisions, as of the date of effectivity of the variation or renewal. An existing contract will be regarded as having been varied if it contains specific milestones at which the parties are able to review or renew the provisions thereof.

Example (21): A factory owner contracts with a company specialising in facilities management for the management of his offices, and the contract is signed on 30 April 2017, and provides that the contract will expire after three years, that is to say on 30 April 2020. In the event that all of the conditions are met, the contract will fall within the scope of the application of the transitional provisions for the imposition of the zero rate. The facility management company may treat the contract as being subject to VAT at a zero rate until the end of 2018. With effect from the beginning of 2019, VAT will be payable at the rate of 5% on the supplies, and both the supplier and the customer must amend the contract to include vat effective from 1 January 2019.

Example (22): A factory owner contracts with a company specialising in facilities management for the management of his offices. The contract is signed on 30 April 2017 with a provision that it expires one year after, that is to say on 30 April 2018. In the event that it satisfies all of the conditions, the contract will fall within the scope of the transitional provisions for the imposition of zero rate, and the facilities management company may treat the contract as being subject to zero-rated VAT until 30 April 2018, which is the date of expiration of the contract. If the factory owner wishes to extend the contract for a further period, both the supplier and the customer must amend the contract with effect from 1 May 2018 in order to include VAT.

Example (23): A factory owner contracts with a company specialising in facilities management for managing his offices. The contract is signed on 30 April 2017 with a provision that it expires at the end of three years (i.e. on 30 April 2020). However, the CFO of company perceives the contract price as too high. He successfully renegotiates the contract with a lower price which comes to effect on 30 September 2018. In the event that all of the conditions are met, the contract will fall within the scope of the transitional provisions for the imposition of zero rate, and the facilities management company may treat the contract as being subject to VAT at zero rate until the date that the contract comes into effect before the variation (30 September 2018). Therefore, the contract will be subject to VAT at the rate of 5% as of October 2018, and the amended contract must include VAT.

Example (24): A factory owner contracts with a company specialising in facilities management for the management of his offices, and the contract is signed on 30 June 2017, with a provision that it will expire at the end of three years, that is to say on 30 June 2020. This contract is treated as being outside the scope of the application of the transitional provisions for the imposition of the zero rate, since it was signed after the time specified in the Implementing Regulations, on 30 May 2017, and therefore the contract is subject to VAT at the rate of 5%, and both the supplier and the customer must amend the contract with effect from 1 January 2018 to include VAT.

6. TRANSITIONAL MEASURES CONCERNING INTRA-GCC TRADE

The Unified VAT Agreement lays down special rules for VAT to be applied to internal supplies between the countries of the Gulf Cooperation Council States, which are designed to harmonize the application of VAT on cross-border trade and ensure VAT is only payable once on each supply of goods and services. These rules are designed to work with all six states of the GCC having a domestic VAT law in place, and with an Electronic Service System to capture details of cross-border transactions in the GCC States.

It is not anticipated that all GCC states will have VAT in place as at 1 January 2018, or that there will be an Electronic Service System by this date. The KSA will therefore operate under transitional rules for cross-border trade within the GCC States.

6.1. APPLICATION OF THE VAT WITHIN GCC TERRITORY

In many cases, the rules for determining the application of VAT depend on whether a supplier or customer is resident in the GCC Territory, or if the person is Taxable in another GCC Member State. The word "resident" includes a resident company if it is established under the laws of the Kingdom of Saudi Arabia or if its main management is located within the Kingdom. A company will also be treated as being a resident entity within the Kingdom if the company or corporate body has been established outside the Kingdom, and it has a branch or premises for the carrying on of its business or any other form of fixed installations in the Kingdom.

- In all cases where another GCC State does not yet have a domestic VAT system, or if an electronic system has not been established between the countries that do apply it, the application of KSA VAT will be determined on the basis that⁽¹⁶⁾: Territory of that state is outside the GCC Territory;
- Residents of that non-applying state will be considered non-GCC residents; and
- Businesses in that State will not be Taxable Persons until VAT is introduced, they have registered for VAT with the relevant authority and the provisions of internal supplies are fully applicable

Example (25): Al Amana Company LLC, a KSA company, receives consultancy services from a Bahraini supplier on 30 January 2018. If Bahrain has not introduced VAT by this date, this will be considered as an import of services from outside of GCC Territory. Al Amana Company will be required to self-account for VAT through the reverse charging mechanism in respect of these services.

Example (26): Oasis Company LLC, a KSA company, provides consultancy services to a company in Oman on 14 February 2018, for the purpose of use of those services in Oman. If Oman has not introduced VAT by this date, this will be considered the provision of services to a customer outside of GCC Territory, where the services are used outside of GCC Territory. On this basis, Oasis Company may zero-rate the supply of these services as being an exported service.

Example (27): Al Diya Company LLC, a Saudi company, exports foodstuffs to a company in the State of Kuwait on 12 March 2018 for the purpose of use of those goods in Kuwait. The State of Kuwait has introduced VAT by that date by the introduction of its internal regulations, but without having introduced the electronic system between the applying states. The supply will be treated as a supply of goods to a customer outside the GCC, as the goods are to be used outside the GCC States. On that basis, Al Diya Company LLC must apply the zero rate to that supply, on the grounds that it is an export of goods outside the Kingdom.

6.2. SUPPLIES OF GOODS TO AND FROM GCC STATES THAT APPLY VAT

Transitional provisions will apply to the supply of goods to and from KSA from all other GCC States, until the Electronic Service System is fully implemented. These rules will apply regardless of whether other GCC States have a domestic VAT system in place.

(16) Article 79(6), Transitional provisions, Implementing Regulations

The special rules will apply from 1 January 2018 until GAZT releases an Order to certify that the Electronic Service System is in place. Until this time, as a transitional measure⁽¹⁷⁾:

- Goods moved from the KSA to another GCC State that applies VAT will be considered as an export of those goods from the KSA for KSA VAT purposes. These supplies will qualify for the zero-rating applying for exports to a non-GCC destination, provided the usual criteria for zero-rating of exports applies. The Authority will issue a separate guideline providing further details on exports
- Goods moved into the KSA from another GCC State that applies VAT will be considered as an import of those goods into the KSA. Import VAT will be charged in the same manner as for imports from a non-GCC state. This will not affect the status of the goods for customs duty purposes. The Authority will issue a separate guideline providing further details on the application of VAT to imports

Example (28): A supplier transports equipment from the KSA to a business customer in the UAE on 11 January 2017. Until such time as GAZT releases an Order to certify the introduction of the Electronic Service System, this is considered a zero-rated export for VAT purposes (even if the UAE has a VAT system in place as of this date). Consequently, this supply will qualify for the zero-rating applied to the export of goods from the Kingdom.

Example (29): A Bahraini supplier drives to Al-Khobar with a van of fresh food products on 1 May 2018, valued at SAR 25,000. Until such time as GAZT releases an Order to certify the introduction of the Electronic Service System, the movement of goods into the KSA from another Member State is considered as an import for VAT purposes. The Customs Department will be responsible for collecting VAT at the appropriate rate on the import of the goods.

(17) Article 79(7), Transitional provisions, Implementing Regulations

7. INPUT VAT DEDUCTION

7.1. GENERAL PROVISIONS

A VAT registered person may deduct Input VAT charged on goods and services it purchases or receives in the course of carrying on its Economic Activity. Input VAT may be deducted on:

- VAT charged by a VAT-registered supplier in the KSA;
- VAT self-accounted by the VAT-registered person under the Reverse Charge Mechanism; or
- Import VAT paid to the Customs Department on imports of goods into the Kingdom

As a general rule, input VAT which is related to the taxpayer's VAT exempt activities is not deductible as input VAT.

In addition, input VAT may not be deducted on any costs incurred that do not relate to the Economic Activity of the taxable person (including some blocked expenditure types such as entertainment and motor vehicles), or on any costs which relate to making exempt supplies. This input VAT is a credit entered on the VAT return which is offset against the VAT charged on supplies (output VAT) made during that period. ⁽¹⁸⁾

Input VAT may only be deducted where the Taxable Person holds a tax invoice, or customs documents showing the amount of tax due, or any other document showing the amount of input tax paid or due, subject to the approval of the Authority. ⁽¹⁹⁾

7.2. PROPORTIONAL DEDUCTIONS RELATING TO INPUT VAT

VAT incurred which relates to a taxpayer's VAT exempt activities, such as exempt financial services or residential rental, is not deductible as Input VAT. A person making both taxable and exempt supplies, can only deduct the Input VAT related to the taxable supplies. If a taxable person incurs general costs or expenses (overheads) in the making of taxable supplies, and others that are exempt from VAT, he must in that event split the costs and expenses precisely so as to specify those costs that relate to the taxable supplies. The input tax will be determined in accordance with the following rules:⁽²⁰⁾

Input VAT directly attributed to taxpayer's taxable sales	Deduct in full
Input VAT directly attributed to taxpayer's exempt sales	No deduction
Overheads and all other input VAT that cannot be directly attributed	Partial deduction based on apportionment

The overhead costs/expenses incurred by the Taxable Person for making both taxable and exempt supplies must be apportioned to most accurately reflect the use of those costs in the taxable portion of the taxpayer's activities.

A prescribed default method of proportional deduction is calculated on the values of supplies made in the year, using of the following fraction:

$$\frac{\text{The value of **Taxable Supplies** made by the Taxable Person in the last calendar year}}{\text{The total value of **Taxable Supplies** and **Exempt Supplies** made by the Taxable Person during the last calendar year}}$$

(18) A detailed list of the blocked expenditures is listed under Article 50 of the Implementing Regulations

(19) Article 49(7), Input Tax Deduction, Implementing Regulations

(20) Article 51, Proportional deduction of Input Tax, Implementing Regulations

The fraction for the default method does not include supplies of Capital Assets made by the taxpayer, as these distort the use of input VAT.

Alternative attribution methods, using other calculation approaches than the value of supplies, may be approved with GAZT in cases where these better reflect the actual use of VAT incurred. Further information about deduction of VAT and proportional VAT recovery will be provided in a separate guideline.

8. OBLIGATIONS OF THE TAXABLE PERSON

In your capacity as a taxable person, you must evaluate your tax obligation and also comply with the conditions and obligations relating to VAT. This includes registering for VAT as necessary, and exactly calculating the net amount of VAT payable, and paying the tax at the time due, as well as keeping all necessary records and cooperating with officials of the Authority on demand.

If you are not sure of your obligations, you must contact the Authority through its website at vat.gov.sa or by other means of communication, and you may also seek external consultation through a qualified consultant. There follows below a review of the most important tax obligations provided for in the Law and the Implementing Regulations.

8.1. ISSUING INVOICES

A supplier must issue a tax invoice for each taxable supply made to any VAT-registered person or to any other legal person, or issue a simplified invoice in the event that the value of the supply is less than SAR 1,000, or for supplies made to the end consumer, by no later than fifteen days following the end of the month in which the supply is made.

The tax invoice must clearly detail information such as the invoice date, supplier's tax identification number, taxable amount, tax rate applied, and the amount of VAT charged.⁽²¹⁾ If different rates have been applied to supplies, the value of each supplies at each rate must be separately specified, as well as the VAT applicable to each rate. A tax invoice may be issued in the form of a commercial document, provided that that document contains all of the requirements for the issuing of tax invoices as set out in the Implementing Regulations to the Law.⁽²²⁾

Further information on the requirements for tax invoicing can be found in the VAT manual or at vat.gov.sa.

8.2. FILING VAT RETURNS

Each VAT registered person, or the person authorised to act on his behalf, must file a VAT return with GAZT for each monthly or quarterly tax period. The VAT return is considered the taxable person's self-assessment of tax due for that period.

Monthly VAT periods are mandatory for taxable persons with annual revenues exceeding SAR 40 million. For all other VAT registered persons, the standard tax period is three months.

The VAT return must be filed, and the corresponding payment of net tax due made, no later than the last day of the month following the end of the tax period to which the VAT return relates.

More information on filing of VAT returns is provided in a separate guideline.

If the VAT return results in VAT due to the taxpayer, or if the taxpayer has a credit balance for any reason a request for a refund of this VAT may be made after the filing of the VAT return, or at any later time during the next five years by filing a request for a refund to the Authority. GAZT will review these requests and will pay the amount due on refund requests that have been approved, directly to the taxpayer.⁽²³⁾

(21) For more details on the requirements for issuing tax invoices, refer to Article 53, Tax Invoices, Implementing Regulations

(22) Article 53, Tax Invoices, Implementing Regulations

(23) Article 69, Refund of overpaid Tax, Implementing Regulations

8.3. KEEPING RECORDS

All taxpayers are required by law to keep appropriate VAT records relating to their calculation of VAT for audit purposes. This includes any documents used to determine the VAT payable on a transaction and in a VAT return. This will generally include:

- Tax invoices issued and received;
- Books and accounting documents;
- Contracts or agreements for large sales and purchases;
- Bank statements and other financial records;
- Import, export and shipment documents; and
- Other records relating to the calculation of VAT

Records may be kept in physical copy, or in some cases electronically – but must be made available to GAZT on request.

All records must be kept for at least the standard retention period of 6 years. That minimum period for retention is extended to 11 years in connection with invoices and records relating to movable capital assets, and 15 years in connection with invoices and records relating to non-movable capital assets.⁽²⁴⁾

8.4. CERTIFICATE OF REGISTRATION WITHIN THE VAT SYSTEM

A resident person who is subject to VAT and registered with the Authority in the VAT system must display a certificate to the effect that he has been registered in the VAT system in a place visible to the public at his main place of business and at all his branches.

In the event of a contravention, the person in breach will be liable to the penalties provided for in the Law.

8.5. CORRECTING PAST ERRORS

If a taxable person becomes aware of an error or an incorrect amount in a filed VAT Return, or of any other non-compliance with the VAT obligation, he should notify GAZT and correct the error by amending VAT the tax return. Errors resulting in a net understatement of VAT (exceeding SAR 5,000) must be made known to GAZT within twenty (20) days of detecting the error or incorrect amount, and the previous return must be amended. In connection with minor errors resulting in a difference of less than SAR 5,000, the error may be corrected by amending the net tax in the subsequent tax return.⁽²⁵⁾

Further information on correcting errors can be found through vat.gov.sa.

(24) Article 66, Records, Implementing Regulations, and Article 52, Capital Assets, Implementing Regulations

(25) Article 63 [Correction of Returns], Implementing Regulations

9. PENALTIES

The Authority may impose penalties or fines on taxpayers for violations of VAT requirements set out by the Law or Implementing Regulations.⁽²⁶⁾

Description of offence	Associated fine
Submitting false documents with the intent of evading the payment of the VAT due or to reducing its value	<ul style="list-style-type: none"> • At least the amount of the VAT due • Up to three times the value of the goods or service
Moving goods in or out of the Kingdom without paying the VAT due	<ul style="list-style-type: none"> • At least the amount of the VAT due • Up to three times the value of the goods or service
Failure to register for the VAT in the allotted timeframe	SAR 10,000
Filing incorrect tax return, amend a tax return after submission or filing any VAT document with the Authority resulting in a lower amount due	Equal to 50% of the value of the difference between the calculated Tax and Tax due
Failure to file VAT return in time	5-25% of the VAT in respect of which the return should have been filed
Failure to pay the VAT in time	5% of the VAT due for each month or part thereof
Collecting VAT without being registered	Up to SAR 100,000
Failure to maintain books and records as stipulated in the regulations	Up to SAR 50,000
Preventing GAZT employees from performing their duties	Up to SAR 50,000
Violating of any other provision of the VAT regulations or the VAT law	Up to SAR 50,000

In all cases, if a violation is repeated within three years from the date of issuing the final decision of the penalty, the Authority may double fine for the second offense.

The level of the penalty or fine imposed is set by GAZT with regard to the taxpayer's behaviour and compliance record (including taxpayers meeting their requirements to notify GAZT of any errors and provide co-operation to rectify mistakes).

(26) Chapter Sixteen: Articles (39), (40), (41), (42), (43), (44), (45), and (47), [Tax Evasion and Penalties], VAT Law

10. APPLYING FOR THE ISSUE OF RULINGS (INTERPRETATIVE DECISIONS)

In the event that you are not sure about the manner of application of VAT to a particular activity or particular transaction that you are doing or intend to do, after referring to the relevant provisions and the relevant guideline, you may submit an application to the Authority to obtain a ruling. The application should set out the full facts relating to the particular activity or particular transaction on which you are asking the Authority to express its view.

A reply to a request for a ruling may be either:

- Public, in which event the Authority will publish details of the ruling, but without referring to any private particulars relating to the individual taxpayer, or
- Private, in which case the Authority will not publish the ruling

The ruling may contain all of the information relating to the activity or the transaction in respect of which the ruling is requested, in addition to an explanation concerning the particular area of doubt or uncertainty in the law or the guide that you have looked at. You may choose to describe the alternatives and what you consider to be the correct treatment.

The Authority is not obliged to respond to all requests for rulings, and it may review all requests and specify priorities on the basis of certain elements, including:

- The level of information submitted by the taxpayer in the request,
- The potential benefit to taxpayers as a whole on the issuing of a general ruling concerning some transaction or activity,
- Whether there is an existing law or guide dealing with this request

Neither a public nor a private ruling issued by the Authority will be treated as binding on it or upon the taxpayer in connection with any transaction that he performs, and it shall not be possible to rely on it in any manner.

11. CONTACTING US

For more information about VAT treatment, kindly visit our website: vat.gov.sa; or contact us on the following number: 19993

12. FREQUENTLY ASKED QUESTIONS

(1) I am resident and registered for tax in the Kingdom. I supplied electronic services to a company in the Kingdom on 20 December 2017, but I have not issued an invoice nor have I collected the amount due for my services. The consideration was received on 28 February 2018. Will VAT be applicable to that supply?

This service is treated as a non-continuous supply occurring before 1 January 2018, and therefore you will not be required to apply VAT to the amount received on February 2018.

(2) I signed a lease with a real estate company registered for VAT in the Kingdom for an office for use in my business as a legal consultant, on 30 January 2018, for a period of two years, in an amount of SAR 120,000 due in monthly instalments, each of SAR 5000. When will VAT be assessed on any value?

VAT will be assessed at the rate of 5% on the date that an instalment falls due or is paid, whichever is the earlier, and on the value of the monthly instalment.

(3) Are contracts that were made before 2018 but which extend beyond 1 January 2018 subject to VAT?

VAT will generally apply to supplies made in the Kingdom on 1 January 2018 and thereafter, unless those supplies are subject to zero rating or are tax-exempt. Continuous contracts in which the introduction of VAT was not anticipated will be subject to the transitional provisions, whereby they will be treated as being subject to the zero rate until the time of expiration of the contract, or the renewal thereof, or 31 December 2018, whichever is earliest, provided that the contract satisfies all of the conditions for the application of the zero rate to the contract.

(4) How will VAT be applied to inventory in stock on 1 January 2018?

VAT will be applied to all supplies of goods and services made on or after 1 January 2018, irrespective of the date on which the goods were purchased or produced.

(5) In connection with inventory of goods in stock prior to the date of introduction of VAT, when they are sold to customers, should VAT be included in the invoice, as it is difficult to separate the purchases that were made on a date prior to the introduction of the tax, and purchases that were made after the introduction of the tax.

VAT will be applied to the sale of the goods whether they were purchased before the introduction of the VAT system, or after it, and whether or not input tax relating to those goods has been deducted.

(6) I contracted with a furniture removal company to move from my house in Riyadh to the city of Jeddah, with the transport due to take place on 18 January 2018. The company issued an invoice on 31 December 2017, and I paid the full value on the same day. Is VAT due on that supply, and who is responsible for charging and paying it?

Yes, VAT is due on the transport services, and the date on which the invoice was issued, and the consideration paid, will be ignored under the transitional provisions. The liability falls on the transport company to issue an additional invoice to you, specifying the amount of the tax, and you will be liable to pay it.

(7) Are annual subscriptions to television channels subject to VAT, bearing in mind that the subscription commenced 1 October 2017?

Yes, this is regarded as a continuous supply, and VAT will be charged on that part carried out after 1 January 2018.

(8) What is the treatment of instalments of school fees relating to the academic term commencing in September 2017 and ending in January 2018?

This will be regarded as continuing services, and VAT will be imposed on the educational services as from 1 January 2018. The school should calculate the tax on that part relating to services performed after 1 January 2018.

(9) I bought a car on hire purchase from a company dealing in hire purchase in 2017, it being provided that I would take delivery of the car in November 2017, with payment of monthly instalments of SAR 2,000 for a period of three years. Is the company entitled to demand that I pay VAT on the instalments due after January 2018?

Under the VAT Law and the Implementing Regulations, the purchase of a car on hire purchase is regarded as a non-continuous supply of goods. The date of supply is the date on which you took delivery of the car. The contract was made and delivery of the car was taken before January 2018, and therefore the company will not be entitled to demand any tax from you on the instalments due after January 2018.

